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MEMORANDUM

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AZ CORP COMMISSION
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TO: Docket Control

FROM: Ernest *Johnson*
Director
Utilities Division

DATE February 1, 2002

RE: STAFF REPORT FOR MONTEZUMA ESTATES PROPERTY OWNERS
ASSOCIATION'S APPLICATION FOR A PERMANENT RATE INCREASE
(DOCKET NO. W-02064A-01-0787)

Attached is the Staff Report for Montezuma Estates Property Owners Association's application for a permanent rate increase. Staff recommends approval without a hearing.

EGJ:CSB:rdp

Originator: Crystal S. Brown

Attachment: Original and ten copies

Arizona Corporation Commission

DOCKETED

FEB 01 2002

DOCKETED BY	<i>mcu</i>
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Service List for: Montezuma Estates Property Owners Association
Docket No. W-02064A-01-0787

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Montezuma Estates Property Owners Association
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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

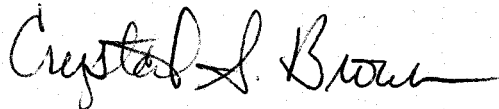
**MONTEZUMA ESTATES PROPERTY
OWNERS ASSOCIATION
DOCKET NO. W-02064A-01-0787**

**APPLICATION
FOR A
PERMANENT RATE INCREASE**

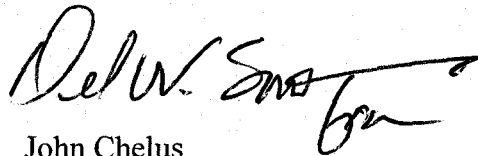
February 2002

STAFF ACKNOWLEDGMENT

The Staff Report for Montezuma Estates Property Owners Association (Docket No. W-02064A-01-0787) was the responsibility of the Staff members listed below. Crystal Brown was responsible for the review and analysis of the Company's application for a permanent rate increase, Staff's recommended revenue requirement, rate base, and rate design. John Chelus was responsible for the engineering and technical analysis. Adam Lebrecht was responsible for reviewing the Arizona Corporation Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.



Crystal S. Brown
Public Utilities Analyst V



John Chelus
Utilities Engineer

Adam Lebrecht
Consumer Service Specialist



**EXECUTIVE SUMMARY OF
MONTEZUMA ESTATES
PROPERTY OWNERS ASSOCIATION
DOCKET NO. W-02064A-01-0787**

Staff's proposed rates produce Total Operating Revenue of \$31,662 and Operating Income of \$4,355, for an 8.53 percent rate of return on an OCRB of \$51,044. Staff's recommended rates would increase the typical residential bill with a median usage of 4,100 gallons, from \$20.31 to \$34.84 for an increase of \$14.53 or 71.6 percent.

The Association experienced significant decreases in the Hook-up fee revenue used to fund construction of its inadequate water system. During the same period, the Association experienced significant increases in capital repair costs and on-going operation and maintenance expense. Staff recommended rates higher than the Company's proposed rates because the requested revenues were insufficient to cover the Company's cash needs on a sustainable basis.

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SCHEDULES

	<u>No.</u>
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ATTACHMENT

Engineering Report

FACT SHEET

Company:

Current Rates: Decision No. 59883, dated November 26, 1996
Type of Ownership: Nonprofit "C" Corporation

Location: Forty nine miles south of Flagstaff, near Rimrock in Yavapai County, Arizona approximately three miles east of Exit 293 on Interstate 17. The water system is not located in an Active Management Area ("AMA").

Rates:

Permanent rate increase application filed: October 9, 2001
Current Test Year Ended: December 31, 2000
Prior Test Year Ended: December 31, 1995

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Proposed Rates</u>
Monthly Minimum Charge Based on 5/8 X 3/4 – inch meter	\$16.00	\$21.00	\$27.25
Gallons in Minimum	1,000	0	0
Commodity Charge Excess of minimum, per 1,000 gallons:	\$1.05	\$1.80	\$1.85
Typical residential bill (Based on median usage of 4,100 gallons)	\$20.31	\$28.38	\$34.84

Customers:

Number of customers in prior Test Year (12/31/96) 12

Average Number of customers in the current Test Year (12/31/00): 61

Current Test Year customers by meter size:

5/8 X 3/4 – inch	59
3/4 – inch	1
1 – inch	1
1 1/2 – inch	0
2 – inch	0
4 – inch	0
6 – inch	0
8 – inch	0

Seasonal customers: N/A

Customer notification mailed: October 5, 2001

Number of customer concerns since rate application filed: 0.

Percentage of complaints to customer base: 0%

Summary of Filing

Based on Test Year results as adjusted by Utilities Division Staff ("Staff"), Montezuma Property Owners Association ("Montezuma", "Company" or "Association") realized an operating loss of \$10,384 on an Original Cost Rate Base ("OCRB") of \$51,044 for no rate of return as shown on Schedule 1.

Montezuma's proposed rates produce Total Operating Revenue of \$25,962 and Operating Income of \$12,420, for a 25.01 percent rate of return on an OCRB of \$49,656. The Company's proposed rates would increase the typical residential bill with a median usage of 4,100 gallons, from \$20.31 to \$28.38 for an increase of \$8.08, or 39.8 percent as shown on Schedule 5.

Staff's recommended rates produce Total Operating Revenue of \$31,662 and Operating Income of \$4,355, for a 8.53 percent rate of return on an OCRB of \$51,044. Staff's recommended rates would increase the typical residential bill, with a median usage of 4,100 gallons, from \$20.31 to \$34.84 for an increase of \$14.53 or 71.6 percent.

Background

On October 9, 2001, Montezuma filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"). Montezuma indicates that a rate increase is needed because it is currently unable to pay on-going operation and maintenance expenses. On December 4, 2001, Staff filed a letter notifying the Association that the application met the sufficiency requirements.

Montezuma is an Arizona non-profit corporation formed in 1979. In 1980, it purchased the utility assets of Lake Montezuma Water Company ("Lake Montezuma") for \$500 during a bankruptcy proceeding. Some parts of the Lake Montezuma system were old, inadequate, and in need of major repairs or improvements.¹ The Commission authorized the Certificate of Convenience and Necessity ("CC&N") transfer from Lake Montezuma to Montezuma in Decision No. 52468, dated September 18, 1981.

On May 20, 1987, the Commission, in Decision No. 55572, ordered a moratorium that limited Montezuma to no more than 13 connections in Unit I and no connections in Unit II due to insufficient storage capacity and the deterioration of its distribution system. To address the Commission's concerns, the Company constructed a second well, installed an additional 2,000 gallon pressure tank, and made various other improvements. The Commission removed the

¹ Montezuma's system was constructed by the Southwest Land and Cattle Development Association ("Southwest"). The Commission granted a CC&N in Decision No. 39683, dated October 21, 1968. The system was completed in 1978 and originally built to serve approximately 720 lots. Prior to the completion of the system, Southwest experienced financial difficulties due to a lower than expected development rate. As a result of this situation, Southwest was forced into bankruptcy in 1977 after only four of the 720 lots were improved.

moratoriums on Unit I and Unit II in Decision Nos. 59108² and 59883³, respectively. Additionally, in Decision No. 59883, the Commission authorized the Association to collect non-refundable hook-up fees for capital repairs and improvements to the system.

During the Test Year ended December 31, 2000, Montezuma provided water service to an average of 61 metered customers. Fifty-nine of these customers are served by 5/8 x 3/4 -inch meters, one is served by a 3/4-inch meter and one is served by a 1-inch meter.

Consumer Services

Consumer Services Staff reviewed the Commission's records and found no formal or informal complaints filed since the last rate increase.

Engineering Analysis

Staff Engineering inspected the Company's plant facilities on November 28, 2001. A complete discussion of Staff Engineering's findings, recommendations, and description of water system is provided in the attached Engineering Report.

Staff Engineering noted that Montezuma's water loss was 33 percent during the Test Year. This amount exceeds the 10 percent Staff Engineering considers reasonable. Staff Engineering determined that the Company is managing the problem in the most cost-effective manner at this time and recommends that Montezuma file annual reports⁴ stating 1) the annual quantity of water pumped and sold, and 2) the efforts made to reduce water loss.

Staff Engineering reviewed Montezuma's proposed increase in the off-site hook-up fee tariff and recommends that it be approved as shown in the attached Engineering report. Engineering further recommends that all hook-up fees be placed in a separate interest bearing account to be used solely for the installation of backbone off-site plant and replacement of original mains, valves, and fittings. Pursuant to Commission Decision No. 59883, dated August 28, 1996, Montezuma was ordered to file semi-annual reports on the status of its hook-up fee. Staff is recommending a modification to this reporting requirement. Staff is recommending that Montezuma be ordered to file an annual report of its hook-up fee account. The annual report should be filed within 45 days of the end of each calendar year and contain the following information:

1. Name of each entity paying hook-up fees;
2. Amount of hook-up fees paid by each entity;
3. Description of utility plant constructed with hook-up fee funds;

² dated June 7, 1995

³ dated November 26, 1996

⁴ with the Director of the Commission's Utilities Division

4. Balance of hook-up fee account;
5. Interest earned on hook-up fee account;
6. Any other pertinent information that may be required by Staff.

Staff Engineering recommends that Montezuma adopt the depreciation rates stated on page 7 of the attached Engineering Report.

Staff Engineering further recommends approval of the proposed curtailment plan tariff as submitted by the Company.

Compliance

Montezuma is current on its property and sales tax payments.

ADEQ determined that the system is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Rate Base

Staff's adjustments increased the Company's proposed Rate Base by \$1,388, from \$49,656 to \$51,044 as shown on Schedule 2, page 1.

Adjustment A increased the working capital allowance by \$1,388 to reflect Staff's calculation of the cash working capital allowance.

Plant in Service

Staff accepted the Company's Utility Plant in Service balances shown on Schedule 2 page 2.

Operating Revenue

Staff accepted the Association's Test Year operating revenue.

Operating Expenses

Staff's adjustments to Operating Expenses resulted in a net increase of \$13,765.

Adjustment A increased office supplies and expenses by \$618, from \$68 to \$686 to reflect the Company's actual expenses incurred for software purchases and software technical support in 2001. These types of costs will continue to be a part of the Company's on-going operations.

Adjustment B increased Outside Services by \$8,847, from \$4,800 to \$13,647. The Montezuma Board of Directors increased the fees for the water manager and accountant to \$6,000 each per year in 2001. The Board determined that the increases were the most cost-effective means to improve the quality of accounting services and to maintain the quality and dependability of the water management services provided to the Association.

Adjustment C decreased Water Testing by \$610, from \$2,606 to \$1,996 to reflect Staff Engineering's determination of the Association's annual water testing cost.

Staff's adjustment D increased Rate Case Expense by \$500, from \$0 to \$500. This adjustment reflects the Association's rate case expense amortized over three years.

Staff's Adjustment E increased Miscellaneous Expense by \$1,746, from (\$1,093) to 653. This adjustment removed the amortization for a negative plant acquisition adjustment. Staff removed the accrual for ratemaking purposes because the Commission has not issued an order allowing the negative plant acquisition adjustment in rates and Staff recommends no recognition of the negative adjustment.

Adjustment F increased Depreciation Expense to reflect application of Staff Engineering's recommended depreciation rates to Staff's recommended plant balances as shown on Schedule 2, Page 3 of 3.

Adjustment G increased Property Tax Expense to reflect the Association's most recent property tax bill.

Adjustment I decreased Income Tax to reflect that the corporation is not subject to tax on its operating income.

Revenue Requirement and Rate Design

Montezuma is a non-profit homeowners' association established by customers for the purpose of providing water service to residents within the community. As previously discussed, the Association experienced significant increases in on-going operation and maintenance expense. Presently, the Association relies solely on hook-up fee revenue to fund construction for its old, inadequate system. The hookup fee revenue was \$45,300, \$22,500, and \$18,000 for the years 1999, 2000, and 2001, respectively. The Association's annual construction costs for those years were \$50,800, \$23,319, and \$28,000.

Staff recommends Total Operating Revenue of \$31,662, an increase of 87.09 percent above the Association's Test Year revenue. Staff's recommended revenue is expected to provide the Association with sufficient cash to fund construction and meet its daily operating cash needs.

Staff recommends a \$27.25 minimum charge and a flat commodity rate of \$1.85 per 1,000 gallons with no gallons included in the minimum as shown on Schedule 4.⁵ Staff also recommends approval of the Association proposed increases to Service Charges, Service Line and Meter Installation Charges, and Hook-up Fees also as shown on Schedule 4.

Staff Recommendations

Staff recommends approval of the Staff proposed rates and charges as shown in Schedule 4.

Staff further recommends approval of its proposed rates and charges without a hearing.

Staff further recommends no recognition of the negative acquisition adjustment for ratemaking purposes.

Staff further recommends that Montezuma adopt the depreciation rates stated on page 7 of the attached Engineering Report.

Staff further recommends that after the effective date of the Decision, the Company file yearly reports within 30 days after the end of each calendar year, with the Director of the Utilities Division indicating 1) the annual quantity of water pumped and sold, and 2) the efforts made to reduce water loss.

Staff further recommends that the Commission approve the proposed increase in the off-site hook-up fee tariff as shown in the attached Engineering Report. Staff further recommends that all hook-up fees be placed in a separate interest bearing account to be used solely for the installation of backbone off-site plant and replacement of original mains, valves, and fittings.

Staff further recommends that Montezuma be ordered to file an annual report of its hook-up fee account. The annual report should be filed within 45 days of the end of each calendar year and contain the following information:

1. Name of each entity paying hook-up fees;
2. Amount of hook-up fees paid by each entity;
3. Description of utility plant constructed with hook-up fee funds;
4. Balance of hook-up fee account;
5. Interest earned on hook-up fee account;
6. Any other pertinent information that may be required by Staff.

⁵Staff Engineering determined that the Association has adequate storage and well capacity to meet current and near-term future needs.

Staff further recommends that Montezuma file, within 36 months of a decision in this case, a report with the Commission's Utilities Division Director describing what steps the Company is planning to take in order to reduce the arsenic level in its water to below 10 parts per billion.

Staff further recommends approval of the proposed curtailment plan tariff as submitted by the Company as shown in attachment B of the attached Engineering Report.

Montezuma Estates

Docket No. W-02064A-01-0787

Test Year Ended December 31, 2000

Schedule 1

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$16,328	\$16,328	\$25,137	\$30,837
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	595	595	825	825
Total Operating Revenue	\$16,923	\$16,923	\$25,962	\$31,662
Operating Expenses:				
Operation and Maintenance	\$8,943	\$20,044	\$8,943	\$20,044
Depreciation	4,178	6,238	4,178	6,238
Property & Other Taxes	320	1,025	320	1,025
Income Tax	101	0	101	0
Total Operating Expense	\$13,542	\$27,307	\$13,542	\$27,307
Operating Income/(Loss)	\$3,381	(\$10,384)	\$12,420	\$4,355
Rate Base O.C.L.D.	\$49,656	\$51,044	\$49,656	\$51,044
Rate of Return - O.C.L.D.	6.81%	-20.34%	25.01%	8.53%
Times Interest Earned Ratio (Pre-Tax)	N/A	N/M	N/A	N/A
Debt Service Coverage Ratio (Pre-Tax)	N/A	N/M	N/A	N/A
Operating Margin	19.98%	-61.36%	47.84%	13.76%

- NOTES: 1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
2. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

Montezuma Estates

Docket No. W-02064A-01-0787

Test Year Ended December 31, 2000

Schedule 2

Page 1 of 3

RATE BASE

	----- Original Cost -----		
	Company	Adjustment	Staff
Plant in Service	\$249,301	\$0	\$249,301
Less:			
Accum. Depreciation	77,717	0	77,717
Net Plant	\$171,584	\$0	\$171,584
Less:			
Plant Advances	\$36,572	\$0	\$36,572
Customer Deposits	240	0	240
Total Advances & Customer Deposits	\$36,812	\$0	\$36,812
Contributions Gross	\$88,800	\$0	\$88,800
Less:			
Amortization of CIAC	2,754	0	2,754
Net CIAC	\$86,046	\$0	\$86,046
Total Deductions	\$122,858	\$0	\$122,858
Plus:			
1/24 Power	\$94	\$0	\$94
1/8 Operation & Maint.	836	1,388	2,224
Inventory	0	0	0
Prepayments	0	0	0
Total Additions	\$930	\$1,388	\$2,318
Rate Base	\$49,656	\$1,388	\$51,044

Montezuma Estates

Docket No. W-02064A-01-0787

Test Year Ended December 31, 2000

Schedule 2

Page 2 of 3

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	750	0	750
304 Structures & Improvements	6,168	0	6,168
307 Wells & Springs	7,602	0	7,602
311 Pumping Equipment	23,159	0	23,159
320 Water Treatment Equipment	2,957	0	2,957
330 Distribution Reservoirs & Stai	25,744	0	25,744
331 Transmission & Distribution N	161,809	0	161,809
333 Services	2,694	0	2,694
334 Meters & Meter Installations	18,418	0	18,418
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipn	0	0	0
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipn	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$249,301	\$0	\$249,301

Explanation of Adjustment:

Montezuma Estates

Docket No. W-02064A-01-0787

Test Year Ended December 31, 2000

Schedule 2

Page 3 of 3

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$77,717
Accumulated Depreciation - Per Staff	77,717
Total Adjustment	\$0

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$16,328	\$0	\$16,328
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	595	0	595
Total Operating Revenue	\$16,923	\$0	\$16,923
Operating Expenses:			
601 Salaries and Wages	\$0	\$0	\$0
610 Purchased Water	0	0	0
615 Purchased Power	2,254	0	2,254
618 Chemicals	0	0	0
620 Repairs and Maintenance	284	0	284
621 Office Supplies & Expense	68	618 A	686
630 Outside Services	4,800	8,847 B	13,647
635 Water Testing	2,606	(610) C	1,996
641 Rents	0	0	0
650 Transportation Expenses	24	0	24
657 Insurance - General Liability	0	0	0
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	500 D	500
675 Miscellaneous Expense	(1,093)	1,746 E	653
403 Depreciation Expense	4,178	2,060 F	6,238
408 Taxes Other Than Income	0	0	0
408.11 Property Taxes	320	705 G	1,025
409 Income Tax	101	(101) H	0
Total Operating Expenses	\$13,542	\$13,765	\$27,307

OPERATING INCOME/(LOSS)	\$3,381	(\$13,765)	(\$10,384)
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Other Income/(Expense):			
419 Interest and Dividend Income	\$298	\$0	\$298
421 Non-Utility Income	0	0	0
427 Interest Expense	0	0	0
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0

Total Other Income/(Expense)	\$298	\$0	\$298
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NET INCOME/(LOSS)	\$3,679	(\$13,765)	(\$10,086)
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Montezuma Estates

Docket No. W-02064A-01-0787

Test Year Ended December 31, 2000

Schedule 3

Page 2 of 3

STAFF ADJUSTMENTS

A	-	OFFICE SUPPLIES & EXPENSE - Per Company	\$68	
		Per Staff	686	\$618

To reflect purchase of computer software and software technical support.

B	-	OUTSIDE SERVICES - Per Company	\$4,800	
		Per Staff	13,647	\$8,847

To reflect accountant and water manager fee increase to \$6,000 each per year.

C	-	WATER TESTING - Per Company	\$2,606	
		Per Staff	1,996	(\$610)

To reflect Staff Engineering's calculation of the annual water testing cost.

D	-	REGULATORY COMMISSION EXPENSE - RATE CASE		
		- Per Company	\$0	
		Per Staff	500	\$500

To reflect the Company's annual rate case expense of \$500 (\$1,500 amortized for over three years).

E	-	MISCELLANEOUS EXPENSE - Per Company	(\$1,093)	
		Per Staff	653	\$1,746

To remove the Company's acquisition adjustment.

Montezuma Estates

Docket No. W-02064A-01-0787

Test Year Ended December 31, 2000

Schedule 3

Page 3 of 3

STAFF ADJUSTMENTS (Cont.)

F	-	DEPRECIATION - Per Company	\$4,178	
		Per Staff	6,238	\$2,060

*Explanation of Adjustment:***Pro Forma Annual Depreciation Expense:**

Plant in Service	\$249,301
Less: Non Depreciable Plant	750
Fully Depreciated Plant	0
Depreciable Plant	\$248,551
Times: Staff Proposed Depreciation Rate	3.90%
Credit to Accumulated Depreciation	\$9,705 *
Less: Amort. of CIAC* @ 3.90%	3,467
Pro Forma Annual Depreciation Expense	\$6,238

*** Amortization of CIAC:**

Contribution(s) in Aid of Construction (Gross)	\$88,800
Less: Non Amortizable Contribution(s)	0
Fully Amortized Contribution(s)	0
Amortizable Contribution(s)	\$88,800
Times: Staff Proposed Amortization Rate	3.90%
Amortization of CIAC	\$3,467

G	-	PROPERTY TAXES - Per Company	\$320	
		Per Staff	1,025	\$705

To reflect the Company's latest property tax bill.

H	-	INCOME TAX - Per Company	\$101	
		Per Staff	0	(\$101)

To reflect Staff's income tax calculation.

RATE DESIGN

		Present	-Proposed Rates-	
Monthly Usage Charge		Rates	Company	Staff
5/8" x 3/4" Meter		\$16.00	\$21.00	27.25
3/4" Meter		24.00	31.50	40.88
1" Meter		40.00	52.50	68.13
1 1/2" Meter		80.00	105.00	136.25
2" Meter		128.00	168.00	216.39
3" Meter		240.00	315.00	408.75
4" Meter		400.00	525.00	681.25
6" Meter		800.00	1,050.00	1,362.50
Excess of Minimum - per 1,000 Gallons		\$1.05	\$1.80	\$1.85
Gallons Included in Minimum		0	0	0
<u>Service Line and Meter Installation Charges</u>				
5/8" x 3/4" Meter	(Same side of water main)	\$400.00	\$500.00	\$500.00
5/8" x 3/4" Meter	(Other side of water main)	400.00	800.00	800.00
3/4" Meter	(Same side of water main)	440.00	550.00	550.00
3/4" Meter	(Other side of water main)	440.00	875.00	875.00
1" Meter	(Same side of water main)	500.00	625.00	625.00
1" Meter	(Other side of water main)	500.00	1,000.00	1,000.00
1 1/2" Meter	(Same side of water main)	715.00	900.00	900.00
1 1/2" Meter	(Other side of water main)	715.00	1,425.00	1,425.00
2" Meter Turbo	(Same side of water main)	1,170.00	1,450.00	1,450.00
2" Meter Turbo	(Other side of water main)	1,170.00	2,350.00	2,350.00
2" Meter Compound	(Same side of water main)	1,700.00	2,125.00	2,125.00
2" Meter Compound	(Other side of water main)	1,700.00	3,400.00	3,400.00
3" Meter Turbo	(Same side of water main)	1,585.00	1,975.00	1,975.00
3" Meter Turbo	(Other side of water main)	1,585.00	3,175.00	3,175.00
3" Meter Compound	(Same side of water main)	2,190.00	2,750.00	2,750.00
3" Meter Compound	(Other side of water main)	2,190.00	4,375.00	4,375.00
4" Meter Turbo	(Same side of water main)	2,540.00	3,175.00	3,175.00
4" Meter Turbo	(Other side of water main)	2,540.00	5,100.00	5,100.00
4" Meter Compound	(Same side of water main)	3,215.00	4,025.00	4,025.00
4" Meter Compound	(Other side of water main)	3,215.00	6,425.00	6,425.00
6" Meter Turbo	(Same side of water main)	4,815.00	6,025.00	6,025.00
6" Meter Turbo	(Other side of water main)	4,815.00	9,625.00	9,625.00
6" Meter Compound	(Same side of water main)	6,270.00	7,850.00	7,850.00
6" Meter Compound	(Other side of water main)	6,270.00	12,550.00	12,550.00
<u>Off-Site Facilities & Original Main Replacement Hook-up Fee</u>				
5/8" x 3/4" Meter		1,500.00	2,000.00	2,000.00
3/4" Meter		1,800.00	2,400.00	2,400.00
1" Meter		3,000.00	4,000.00	4,000.00
1 1/2" Meter		6,000.00	8,000.00	8,000.00
2" Meter		9,600.00	12,800.00	12,800.00
3" Meter		18,000.00	24,000.00	24,000.00
4" Meter		30,000.00	40,000.00	40,000.00
6" Meter		60,000.00	80,000.00	80,000.00
<u>Service Charges</u>				
Establishment		\$25.00	\$40.00	\$40.00
Establishment (After Hours)		30.00	60.00	60.00
Reconnection (Delinquent)		30.00	50.00	50.00
Meter Test (If Correct)		20.00	30.00	30.00
Deposit		*	45.00	*
Deposit Interest		*	*	*
Re-Establishment (Within 12 Months)		**	**	**
NSF Check		15.00	25.00	25.00
Deferred Payment		1.50%	1.50%	0.00%
Meter Re-Read (If Correct)		10.00	15.00	15.00
<u>Monthly Service Charge for Fire Sprinkler</u>				
4" or Smaller		***	***	***
6"		***	***	***
8"		***	***	***
10"		***	***	***
Larger than 10"		***	***	***

* Per Commission Rules (R14-2-403.B)

** Months off system times the minimum (R14-2-403.D)

*** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Montezuma Estates Property Owners Assn.

Docket No. W-02064A-01-0787

Test Year Ended December 31, 2000

Schedule 5

TYPICAL BILL ANALYSIS **General Service 5/8 X 3/4 - Inch Meter**

Average Number of Customers: 59

<u>Company</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	4,769	\$21.01	\$29.58	\$8.58	40.8%
Median Usage	4,100	\$20.31	\$28.38	\$8.08	39.8%
<u>Staff</u>					
Average Usage	4,769	\$21.01	\$36.07	\$15.06	71.7%
Median Usage	4,100	\$20.31	\$34.84	\$14.53	71.6%

Present & Proposed Rates (Without Taxes) **General Service 5/8 X 3/4 - Inch Meter**

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$16.00	\$21.00	31.3%	\$27.25	70.3%
1,000	17.05	22.80	33.7%	29.10	70.7%
2,000	18.10	24.60	35.9%	30.95	71.0%
3,000	19.15	26.40	37.9%	32.80	71.3%
4,000	20.20	28.20	39.6%	34.65	71.5%
5,000	21.25	30.00	41.2%	36.50	71.8%
6,000	22.30	31.80	42.6%	38.35	72.0%
7,000	23.35	33.60	43.9%	40.20	72.2%
8,000	24.40	35.40	45.1%	42.05	72.3%
9,000	25.45	37.20	46.2%	43.90	72.5%
10,000	26.50	39.00	47.2%	45.75	72.6%
15,000	31.75	48.00	51.2%	55.00	73.2%
20,000	37.00	57.00	54.1%	64.25	73.6%
25,000	42.25	66.00	56.2%	73.50	74.0%
50,000	68.50	111.00	62.0%	119.75	74.8%
75,000	94.75	156.00	64.6%	166.00	75.2%
100,000	121.00	201.00	66.1%	212.25	75.4%
125,000	147.25	246.00	67.1%	258.50	75.6%
150,000	173.50	291.00	67.7%	304.75	75.6%
175,000	199.75	336.00	68.2%	351.00	75.7%
200,000	226.00	381.00	68.6%	397.25	75.8%

**Summary Of Engineering Report
of John A. Chelus
for Montezuma Estates Property Owners Association
Docket No. W-02064A-01-0787
December 21, 2001**

1. The Company is not located within any Active Management Area and is not subject to conservation and monitoring requirements.
2. Based on data submitted by the Company, ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
3. The Company experienced a water loss of over 33 percent during the Test Year. This is much higher than the 10 percent that Engineering considers reasonable. The Company has been repairing on average five or six leaks per year. Engineering believes that the Company is doing everything possible to correct the problem and that it would not be cost effective to spend any more on repairs than they already are at this time.

Engineering recommends that after the effective date of the Decision, the Company file yearly reports within 30 days after the end of each calendar year, with the Director of the Commission's Utilities Division, indicating the quantity of water pumped and sold each month during the year and the efforts made to reduce water loss such as repairing of leaks.

4. Because the Company has multiple wells, it has adequate storage and well capacity to meet current and near future demands for the 24-hour storage requirement.
5. A check with the Utilities Division Compliance Unit showed no outstanding compliance issues.
6. Engineering estimates a total cost of \$1,996 per year for the next three years for water testing costs.
7. Engineering reviewed the actual service line and meter installation costs with the Company and recommends that the service line and meter installation charges shown in Section H, of the Engineering Report be adopted.
8. Engineering considers the proposed increase in the off-site hook-up fee tariff reasonable and recommends that it be approved as presented in Attachment A, of the Engineering Report.

Engineering recommends that all Hook-up Fees collected under the tariff be placed in a separate interest bearing account to be used solely for the installation of backbone off-site plant and replacement of original mains, valves, and fittings.

Staff further recommends that the Commission require the Company file annual reports on the water Hook-up Fee account disclosing:

1. Name of each entity paying Hook-up Fee;
 2. Amount of Hook-Up Fee paid by each entity;
 3. Description of utility plant constructed with Hook-Up Fee funds;
 4. Balance of Hook-Up Fee account;
 5. Interest earned on Hook-Up Fee account;
 6. Any other pertinent information that may be required by Staff.
9. Engineering recommends using the depreciation rates table contained in the Engineering Report.
10. The new EPA arsenic standard of 10 pbb will take effect in 2006. Engineering recommends that the Company, within 36 months from the effective date of the Decision, submit a report to the Commission's Utilities Division Director, describing what steps the Company is planning to take in order to reduce the arsenic level in its water to below 10 ppb.
11. Engineering has reviewed the proposed curtailment plan tariff submitted by the Company as part of this proceeding and recommends approval as submitted. (See Attachment B.)

**ENGINEERING REPORT
FOR
MONTEZUMA ESTATES PROPERTY OWNERS ASSOCIATION
DOCKET NO. W-02064A-01-0787**

A. PURPOSE OF REPORT

This report was prepared in response to a rate application filed by Montezuma Estates Property Owner's Association ("Company"). John A. Chelus, Utilities Engineer, inspected the water system on November 28, 2001. The Company was represented by David and Sune Cavner, who oversee the business office and Bill and Lucy Couch, who oversee the operations.

B. LOCATION OF WATER SYSTEM

The Company is located about 3.5 miles northeast of I-17 (Exit 293) on E. Beaver Creek Road in Yavapai County. The Company serves a part of Township 15 North, Range 5 East Section 36. Figures 1 & 2 show the location of the Company in relation to other regulated companies in Yavapai County.

C. DESCRIPTION OF WATER SYSTEM

The system serves approximately 80 residential customers. It consists of two wells; two pressure tanks, two storage tanks, two booster pumps, chlorination equipment, backup generators and distribution system.

Well Data

	Well No. 1	Well No. 2
ADWR ID No.	55-621605	55-621604
Casing Size	10 inch	10 inch
Casing Depth	315 ft.	315 ft.
Meter Size	2 inch	2 inch
Pump Size	3 hp	7 hp
Pump Yield	28 gpm	35 gpm
Date Drilled		
Storage Tank	1 - 10,000 gallon	1 - 10,000 gallon
Pressure Tank	1-2,000 gallons	1-2,000 gallons
Booster Pumps	1 - 5 hp	1 - 5 hp
Standby Generators	2- 10,000 Watts Propane	

Mains

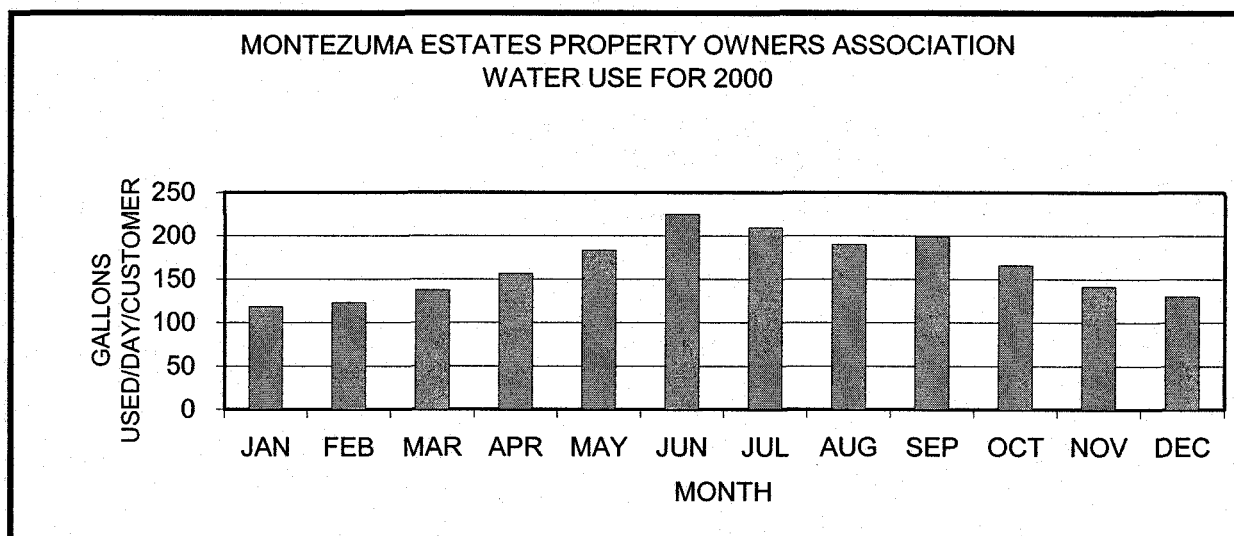
Diameter (inches)	Material	Length (feet)
4 "	PVC	11,950
3 "	PVC	8,350
2"	PVC	300

Meters

Size	Quantity
5/8 X 3/4"	66
3/4"	1
1	1

D. WATER USAGE

The following graph and table depicts water usage for the Company during the December 31, 2000, Test Year. The largest water usage occurred in June 2000 when 398,000 gallons were sold to 59 customers. This equates to 225 gallons per customer per day. The smallest water usage occurred in February 2000 when 203,000 gallons were sold to 59 customers. This equates to 123 gallons per customer per day.



	Gallons Sold Per Month	Number of Connections	Gallons Used Per Connection Per Day	Days in Month
JANUARY	227,000	62	118	31
FEBRUARY	203,000	59	123	28
MARCH	234,000	55	137	31
APRIL	272,000	58	156	30
MAY	329,000	58	183	31
JUNE	398,000	59	225	30
JULY	396,000	61	209	31
AUGUST	371,000	63	190	31
SEPTEMBER	364,000	61	199	30
OCTOBER	324,000	63	166	31
NOVEMBER	276,000	65	142	30
DECEMBER	282,000	70	130	31
Total	3,676,000			
Max	398,000	70	225	
Min	203,000	55	118	
Avg.	306,333	61	165	

E. GROWTH

The Company reported an increase in customers from 14 on November 27, 1996, to 80 as of November 9, 2001. This is an increase of approximately 13 customers per year. According to the Company, most of the developer owned lots have been developed and sold and it appears that growth in the near future will decrease substantially from the current rates. If all the homes in Units 1 and 2 are built out, there could be over 700 customers.

F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Company is not located within any Active Management Area and is not subject to conservation and monitoring requirements.

G. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

ADEQ regulates the water system under Public Water System I.D. # 13-071. Based on data submitted by the Company, ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

H. OTHER

Storage and Well Capacity

Because the Company has multiple wells, it has adequate storage and well capacity to meet current and near future demands for the 24-hour storage requirement. If 24-hour storage capacity is based on the combination of storage and well production with the largest well being out, the Company has capacity to serve 268 customers. If 24-hour storage adequacy was based on storage capacity alone, the Company's 20,000 gallons storage has enough capacity to serve 89 customers.

New Arsenic Standard

The U.S. Environmental Protection Agency ("EPA") has announced that the arsenic standard in drinking water will be reduced from 50 parts per billion ("ppb") to 10 ppb by 2006. The most recent lab analysis by the Company indicated that the arsenic level in its source supply is 37 ppb. Based on this arsenic level, the Company will be required to implement a plan to address this issue. This could mean installing treatment facilities, locating a better source of water or blending sources of water to achieve 10 ppb or less. Engineering recommends that the Company, within 36 months from the effective date of the Decision, submit a report to the Commission's Utilities Division Director describing what steps the Company is planning to take in order to reduce the level in their water to a concentration below 10 ppb.

Water Loss

The Company reported pumping 5,510,000 gallons during the Test Year. During the same period, the Company reported selling 3,676,000 gallons of water. This equates to a water loss of over 33 percent. This is much higher than the 10 percent that Engineering considers reasonable.

The water system was constructed in 1978 by Ned Warren, a developer who had a history of installing inadequate, poorly constructed water systems. The distribution mains have developed leaks, usually at the valves and at transitions. As the leaks are detected and the funds are available, the leaks are repaired. A typical valve replacement, which fixes one leak, costs approximately \$1,600. The Company has been repairing on average five or six leaks per year. The hook-up fee tariff approved in Decision No. 59883, was established in part to address the fact that the distribution mains need repair.

Engineering believes that the Company is doing everything possible to correct the problem and that it would not be cost effective to increase spending on repair at this time. In comparison to the cost to repair one valve, the Company spent a total of \$2,254 in the Test Year for purchased power costs. Assuming the entire cost was for pumping, only \$450 or 20 percent is attributable to excess water loss.

Engineering recommends that after the effective date of the Decision, the Company file yearly reports within 30 days after the end of each calendar year, with the Director of the Commission's Utilities Division, indicating the quantity of water pumped and sold each month during the year and the efforts made to reduce water loss such as number of leaks repaired.

Water Testing Costs

The Monitoring and Assistance Program ("MAP") is operated by ADEQ for all systems serving less than 10,000 people. Annual fees are assessed based on the number and size of connections. ADEQ performs all water testing for the system, except for the tests listed below. These tests are still the direct responsibility of the Company. Engineering estimates a total cost of \$1,996 per year for the next three years for water testing costs.

MONITORING	COST (\$) PER TEST	TOTAL 3 YEAR COST (\$)	COST (\$) PER YEAR
Bacteriological	50	3600	1200
Primary & Secondary Inorg.	190	380	138
Radiochemical			
Gross Alpha 4 (YR)	55	82	28
Radium 226 & Radium 228	170		
Nitrate – Annual	20	60	20
Nitrite – Once/Cycle	15	45	15
Asbestos – One (9 YR.)	180	60	20
Trihalomethane	100	300	100
Lead & Copper	25	375	125
Monitoring Assistance Program	350	1,050	350
TOTALS		\$5,952	\$1,996

Compliance with Pervious Orders

A check with the Utilities Division Compliance Unit showed no outstanding compliance issues.

Service Line and Meter Installation Charges

The Company is proposing that its service line and meter installation charges be increased and that they reflect the difference in cost between services that are installed on the same side of the road as the distribution main as opposed to those that are installed on the opposite side of the road. There are additional costs to run the services across the roadway including purchasing a permit from the county to cross the road. The Company feels that this differentiation more accurately reflects actual costs. Engineering reviewed the actual costs with the Company and recommends that the service line and meter installation charges shown in the following table be adopted.

Meter Size	Staff Proposed Service Line and Meter Installation Charges	
	Meter on Same Side of Road as distribution main)	Meter on Opposite Side of Road from distribution main
5/8" x 3/4" Meter	\$500.00	\$800.00
3/4 " Meter	\$550.00	\$875.00
1 " Meter	\$625.00	\$1,000.00
1 1/2" Meter	\$900.00	\$1,425.00
2" Meter	\$1,450.00	\$2,350.00
3" Meter	\$1,975.00	\$3,175.00
4" Meter	\$3,175.00	\$5,100.00
6" Meter	\$6,025.00	\$9,625.00

Off-site Facilities and Original Main Replacement Hook-up Fee

Decision No. 59883. approved an off-site hookup fee to cover the cost of installing backbone plant and for the replacement of original mains that were improperly installed by the original developer. The Company is requesting that the fee be increased due to increased costs for material and labor. For example, the hook-up fee for a 5/8" x 3/4" service would increase from \$1500 to \$2000. Engineering reviewed typical costs for plant and discussed the costs being incurred by the Company to replace leaking distribution mains. For example, replacing one leaky valve costs \$1600. If each new customer pays to repair one leaky valve, it would leave \$400 for his or her share of off-site plant. Engineering considers the proposed increase in the off-site hook-up fee tariff reasonable and recommends that it be approved as presented in Attachment A, of this Engineering Report.

Engineering recommends that all Hook-up Fees collected under the tariff be placed in a separate interest bearing account to be used solely for the installation of backbone off-site plant and replacement of original mains, valves, fittings and related appurtenances.

Staff further recommends that the Commission require the Company file annual reports on the water Hook-up Fee account disclosing:

1. Name of each entity paying Hook-up Fee;
2. Amount of Hook-Up Fee paid by each entity;
3. Description of utility plant constructed with Hook-Up Fee funds;
4. Balance of Hook-Up Fee account;
5. Interest earned on Hook-Up Fee account;
6. Any other pertinent information that may be required by Staff.

Curtailment Plan

The Company submitted a proposed Curtailment Plan Tariff as part of this rate proceeding. Engineering has reviewed the proposed curtailment plan and recommends approval of the Curtailment Plan Tariff as submitted by the Company (see Attachment B.)

Depreciation Rates

The following table shows general guidelines for annual depreciation rates by NARUC Account Number. These rates represent typical and customary values within a range of anticipated equipment life. Staff Engineering recommends using these rates.

TYPICAL DEPRECIATION RATES FOR WATER COMPANIES

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc. Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5 percent to 50 percent. The depreciation rate would be set in accordance with the specific capital items in this account.

TARIFF SCHEDULE

UTILITY: Motezuma Estates Property Owners Association
DOCKET NO. W-02064A-01-0787
DECISION NO. _____
EFFECTIVE DATE: _____

SHEET NO. 1

OFF-SITE FACILITIES AND ORIGINAL MAIN REPLACEMENT HOOK-UP FEE

I. Purpose and Applicability

The purpose of the hook-up fees payable to Montezuma Estates Property Owner's Association ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional facilities to provide water production, storage, pressure, fire flow among all new service connections. It is also for the replacement of original mains, valves and fittings installed by the original developer of Montezuma Lake Estates.

These charges are applicable to all new service connections established after the effective date of this tariff. The charges are one-time charges and are payable as a condition to the Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections.

"Company" means Montezuma Estates Property Owner's Association.

"Off-Site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Off-Site facilities may also include booster pumps, pressure tanks, transmission mains, original mains, valves, fittings and related appurtenances necessary for proper operation, if these facilities are not for the exclusive use of the applicant and these facilities will benefit the entire water system.

"Service Connection" means and includes all service connections for single-family residential, commercial, industrial, or other uses, regardless of meter size.

"Original Mains" means those transmission mains and distribution mains and related valves and fittings that were installed by the original developer of Montezuma Lake Estates, which may need replacement due to improper installation, by the original developer.

III. Off-Site Facilities & Original Main Replacement Hook-Up Charges

Each new service connection shall pay the total off-site facilities hookup fee, derived from the following table:

OFF-SITE FACILITIES HOOKUP FEE TABLE		
Meter Size	NARUC Meter Factor	Total Fee
5/8" X 3/4 "	1	\$2000.00
3/4 "	1.2	\$2400.00
1"	2	\$4000.00
1- 1/2 "	4	\$8000.00
2"	6.4	\$12800.00
3"	12	\$24000.00
4"	20	\$40000.00
6" or larger	40	\$80000.00

IV. Terms and Conditions

- (A) Assessment of One Time Hook-Up Charge: The hook-up fee may be assessed only once per service connection, or lot within a platted subdivision (similar to meter and service line installation charges). However, this provision does not exempt from the hook-up fee, any newly created parcel(s) which are the result of further subdivision of a lot or land parcel and which do not have a service connection.
- (B) Use of Off-Site Hook-Up Fee: Hook-Up fees may only be used to pay for the capital items of off-site facilities, or for repayment of loans obtained for installation of off-site facilities. It can also be used to replace original mains and associated valves and fittings. Off site hook-up fees shall not be used for repairs, maintenance, any other plant replacements than original mains or for operational purposes.
- (C) Time of Payment:
- (1) In the event that the Applicant is required to enter into a main extension agreement, whereby the Applicant agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements in order to extend service in accordance with R-14-2-406 (B), payment of the charges required hereunder shall be made by the Applicant within 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the main extension agreement in accordance with R14-2-406(M).

- (2) In the event that the Applicant is not required to enter into a main extension agreement, the charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.
- (D) Failure to Pay Charges; Delinquent Payments: – Under no circumstances will the Company set a meter or otherwise allow service to be established if the Applicant has not paid in full all charges as provided by this off-site hook-up fee tariff.
- (E) Off-Site Hook-Up Fee Non-refundable: - The amounts collected by the Company pursuant to the off-site hook-up fee shall be non-refundable contributions in aid of construction.
- (F) Use of Charges Received: All funds collected by the Company as off-site hook-up fees, shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.
- (G) Off-Site Hook-Up Fees In Addition to Other Charges: The off-site hook-up fees shall be in addition to any costs associated with a main extension agreement for on-site facilities, and are in addition to the amounts to be advanced pursuant to charges authorized under other sections of this tariff
- (H) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fee or the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission (Commission), any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.
- (I) Fire Flow Requirements: In the event the applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were generally provided or estimated, the Company may require the Applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the off-site hook-up fee.

Effective Date: _____

Approved for Filing in Compliance with
Decision No. _____

TARIFF SCHEDULE

Utility: Montezuma Estates Property Owners Association Tariff Sheet No.: _____
Docket No.: W-02064A-01-0787 _____ Decision No.: _____
Phone No.: 928-567-4722 _____ Effective: _____

CURTAILMENT PLAN FOR MONTEZUMA ESTATES PROPERTY OWNERS ASSOCIATION

ADEQ Public Water System Number: 13071

The Company is authorized to curtail water service, to all customers, residential and commercial, within its certificated area under the following terms and conditions:

Stage 1 Exists When:

1. The Company is able to maintain water storage in the system at 100 percent capacity and there are no known problems with its well production or water storage in the system.

Restrictions: Under Stage 1, the company is deemed to be operating normally and no curtailment is necessary.

Notice Requirements: Under Stage 1, no notice is necessary.

Stage 2 Exists When:

1. The Company's total storage and well production has been less than 80 percent of capacity for at least 48 consecutive hours, and
2. The Company has identified issues such as steadily declining water table, an increased draw-down threatening pump operations, poor water production creating a reasonable belief the Company will be unable to meet anticipated water demands in the system.

Restrictions: Under Stage 2, the Company may request the customers to voluntarily employ water conservation measures to reduce water consumption by approximately 50 percent. Outside watering should be limited to essential water, dividing outside watering on some uniform basis (such as even and odd days) and eliminating outside watering on weekends and holidays.

Notice Requirements: Under Stage 2, the Company is required to notify customers by delivering written notice door to door at each service address, or by United States first class mail to the billing address or, at the Company's option both. Such notice shall notify the customers of the general nature of the problem and the need to conserve water.

Stage 3 Exists When:

1. The Company's total storage and well production has been less than 50 percent for at least 24 consecutive hours. The Company has identified issues such as a steadily declining water table, and increased draw down threatening pump operations creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis. The Company must rely on hauling to augment the minimum needs of the customers.

Restrictions: Under Stage 3, the Company shall request the customer to voluntarily employ water conservation measures to reduce daily consumption by approximately 50 percent. All outside watering should be eliminated, except livestock, and indoor water conservation techniques should be employed whenever possible.

TARIFF SCHEDULE (CONTINUED)

Utility: Montezuma Estates Property Owners Association
Docket No.: W-02064A-01-0787
Phone No.: 928-567-4722

Tariff Sheet No.: _____
Decision No.: _____
Effective: _____

Stage 3 Exists When: (continued) (PWS-Number 13071)

Notice Requirements:

- a. The Company is required to notify customers by delivering written notice to each service address, or by United States first class mail to the billing address or, at the Company's option both. Such Notice shall notify the customers of the general nature of the problem and the need to conserve water.
- b. Beginning with Stage 3, the Company shall post at least two signs showing curtailment stage. Signs shall be posted at the well site and at the entrance to the major subdivision served by the Company.
- c. The Company shall notify the Consumer Services Section of the utilities Division of the Corporation Commission at least 12 hours prior to entering stage 3.

Stage 4 Exists When:

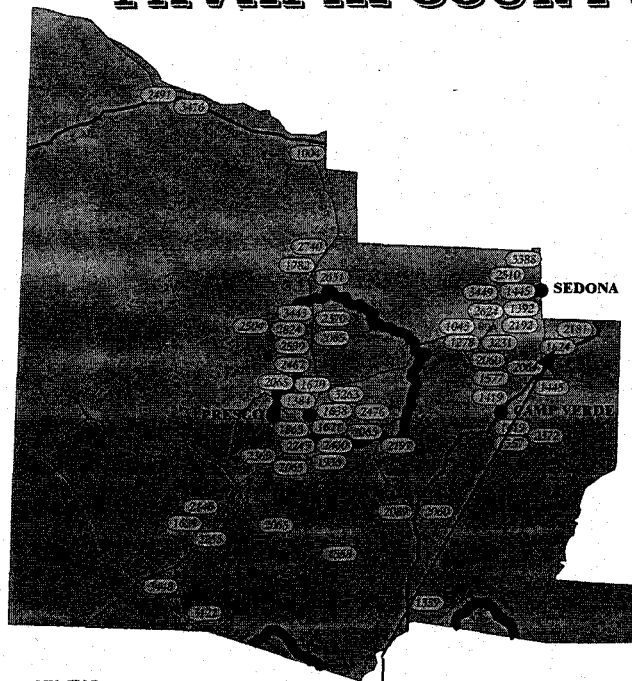
1. The Company's total storage has been less than 25 percent for at least 12 consecutive hours. The Company has identified issues such as a steadily declining water table, and increased draw down threatening pump operations creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis. The Company must rely on an emergency hauling to augment the minimum needs to the customers.

Restrictions: Under Stage 4, the Company shall inform the customers of a mandatory restriction to employ water conservation measures to reduce daily consumption. All outside watering should be eliminated, except livestock, and indoor water conservation techniques should be employed wherever possible. Failure to comply will result in temporary disconnection.

Notice Requirements:

- a. The Company is required to notify customers by delivering written notice to each service address, or by United States first class mail to the billing address or, at the Company's option, both.
- b. The Company shall have posted at least two signs showing curtailment stage. Signs shall be posted at the well site and at the entrance to the major subdivision served by the company.
- c. The Company shall notify the Consumer Services Section of the Utilities Division of the Corporation Commission at least 12 hours prior to entering stage 4.
- d. Customers who fail to comply with cessation of outdoor use provisions will be given written notice to end all outside use. Failure to comply with in two (2) working days of receipt of the notice will result in temporary loss of service until agreement can be made to end unauthorized use of outside water. To restore service, the customer shall be required to pay all authorized reconnection fees.

YAVAPAI COUNTY



1782	ABRA WATER COMPANY, INC.	2197	HUMBOLDT WATER SYSTEM, INC.
2740	ANTELOPE LAKES WATER COMPANY	2824	ICR WATER USERS ASSOCIATION
1639	ANTELOPE WATER COMPANY	2624	MICHAELS RANCH WATER USERS' ASSOCIATION
3443	APPALOOSA WATER COMPANY	2651	JUNIPER WELLS WATER COMPANY
1445	ARIZONA WATER COMPANY	1557	LAKE VERDE WATER COMPANY
1004	ASHFORK DEVELOPMENT ASSOCIATION, INC.	2192	LITTLE PARK WATER COMPANY, INC.
3476	BN LEASING CORPORATION	2245	LOMA ESTATES WATER COMPANY
1624	BIG PARK WATER COMPANY	2504	MEADOW WATER COMPANY
2510	BOYNTON CANYON ENCHANTMENT HOMEOWNERS ASSOC.	2460	MILLSITE WATER USERS, INC.
2089	BRADSHAW MOUNTAIN VIEW WATER COMPANY	2064	MONTEZUMA ESTATES PROPERTY OWNERS ASSOC.
2476	BRADSHAW WATER COMPANY, INC.	1572	OAK CREEK PUBLIC SERVICE COMPANY
1412	CAMP VERDE WATER SYSTEM	1392	OAK CREEK WATER COMPANY NO. 1
2370	CHINO MEADOWS II WATER COMPANY, INC.	2146	PEEPLER VALLEY WATER COMPANY
11278	CLEMENCEAU WATER COMPANY	2181	PINE VALLEY WATER COMPANY
1559	COLDWATER CANYON WATER COMPANY	1936	POTATO PATCH WATER SERVICE, INC.
2060	CORDES LAKES WATER COMPANY	3448	RAINBOW PARKS, INC.
1045	COTTONWOOD WATER WORKS, INC.	3449	SEDONA VENTURE (MHC OPERATING LTD PARTNERSHIP)
1558	CROWN KING WATER COMPANY, INC.	3388	SEVEN CANYONS WATER COMPANY
1384	DELL'S WATER COMPANY, INC.	1674	SHERMAN PINES WATER COMPANY
2263	DIAMOND VALLEY WATER USERS ASSOCIATION	2372	VERDE LAKES WATER CORPORATION
2491	GRAND CANYON CAVERNS	3231	VERDE SANTA FE WATER COMPANY, L.L.C.
1670	GRANITE DELL'S WATER COMPANY	2369	WALDEN MEADOWS COMMUNITY COOPERATIVE
2467	GRANITE MOUNTAIN WATER COMPANY, INC.	3122	WICK WATER L.L.C.
2539	GRANITE OAKS WATER USERS ASSOCIATION	2065	WILHOIT WATER COMPANY, INC.
1865	GROOM CREEK WATER USERS ASSOCIATION	2255	YARNELL WATER IMPROVEMENT ASSOCIATION
1638	HOLIDAY HILLS WATER COMPANY		

Figure 1

COUNTY: *Yavapai*

RANGE 5 East

TOWNSHIP 15 North

6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36



W-1445 (5)(1)

Arizona Water Company (River Valley)



W-2064 (1)

Montezuma Estates Property Owners Assoc.

Figure 2